

Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 13441 131016Z

17

ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-06 IO-10 H-01 L-02 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-05 NSAE-00 XMB-02 OPIC-03 LAB-01 SIL-01

/083 W

----- 088889

P 130840Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8343

INFO AMEMBASSY JAKARTA PRIORITY

LIMITED OFFICIAL USE MANILA 13441

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 2/14/75

TAGS: EAID, EFIN, ID

SUBJECT: PROPOSAL ADB LOAN TO CIPADUNG SPINNING MILL PROJECT
(INDONESIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$13.7 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES
TO GOVT OF INDONESIA TO FINANCE FOREX COST OF
EXPANSION OF EXISTING SPINNING CAPACITY OF CIPADUNG
SPINNING MILL IN BANDUNG, WEST JAVA, FROM 30,000
TO 60,000 SPINDLES. USADB RECOMMENDS FAVORABLE
NAC ACTION.

1. ADB DOC. R108-74 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHES ADDRESSEES NOV, 11. BOARD
CONSIDERATION SCHEDULED NOV. 28.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13441 131016Z

2. ADB MANAGEMENT PROPOSING \$13.7 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF INDONESIA FOR CIPADUNG SPINNING MILL PROJECT IN VANDUNG, WEST JAVA. PROCEEDS WILL FINANCE FOREX COST OF (A) CONSTRUCTION OF ADDITIONAL MILL BUILDINGS AND AUXILIARY FACILITIES INCLUDING AIR CONDITIONING EQUIPMENT, SPRINKLERS AND HYDRANTS, AND ADDITIONAL ELECTRIC POWER AND WATER SUPPLY FACILITIES AND EQUIPMENT; (B) INSTALLATION OF ABOUT 30,000 SPINDLES INCLUDING NECESSARY SUBSIDIARY PRODUCTION EQUIPMENT; AND (C) PROVISION OF AN ENGINEERING CONSULTANT AND FINANCIAL AND MANAGEMENT ADVISORY SERVICES. PROJECT WILL REQUIRE ABOUT THREE YEARS TO COMPLETE. PROPOSED TERMS ARE 18-YEAR AMORTIZATION INCLUDING 4-YEAR GRACE PERIODN 8-1/4 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER AND P.N INDUSTRI SANDANG THE EXECUTING AGENCY. PROCEEDS OF BANK LOAN TO BE RELENT TO EXECUTING AGENCY AT 15 PERCENT INTEREST REPAYABLE IN 15 YEARS INCLUDING 3 YEATS GRACE.

3. AT PRESENT, INDONESIAN SPINNING MILLS CAN SUPPLY ONLY ABOUT 51 PERCENT OF COUNTRY'S TOTAL YARN REQUIREMENTS. GOVT IS ENCOURAGING EXPANSION OF LOCAL SPINNING MILLS BECAUSE OF CONDERN OVER IMBALANCE BETWEEN YARN PRODUCTION CAPACITY AND REQUIREMENTS OF WEAVING AND KNITTING MILLS TO MEET INDONESIA'S DOMESTIC TEXTILE REQUIREMENTS. GOVT EXPECTS INDONESIA TO BECOME SELF-SUFFICIENT IN BOTH YARN AND FABRICS DURING THIRD FIVE-YEAR DEVELOPMENT PLAN PERIOD (FY 1979/80 TO FY 1984/85). IT IS ALSO CONCENTRATING ON DEVELOPMENT OF DOMESTIC RAW MATERIALS FOR INDUSTRY. BY 1980, AT LEAST 10 PERCENT OF RAW COTTON REQUIREMENTS IS EXPECTED TO BE MET FROM DOMESTIC SUPPLY, WHILE INDUSTRY'S SYNTHETIC FIBER AND FILAMENT REQUIREMENTS WOULD BE COMPLETELY SUPPLIED FROM PEDO-CHEMICAL PLANTS IN-COUNTRY. BANK NUSSUIB ABTUCUOATES THAT INDONESIA WILL STILL BE NET TEXTILE FABRIC IMPORTER FOR NEXT TEN YEARS.

4. CIPADUNG SPINNING MILL (CSM), AN OPERATING UNIT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 13441 131016Z

OF P.N. SANDANG, WAS FINANCED WITH ABOUT 1.7 MILLION POUND U.K. GOVT CREDIT IN 1961. U.K. GOVT ALSO PROVIDED REHABILITATION GRANT OF ABOUT \$390,000 IN 1970. EXPANSION OF CSM WAS ON LIST OF HIGH PRIORITY PROJECTS PRESENTED TO INTER-GOVERNMENTAL GROUP FOR INDONESIA IN DECEMBER 1972, AND GOVT REQUESTED ADB SPECIAL FUNDS FINANCING SEVERAL TIMES. BANK MISSION FOUND CSM'S MANAGEMENT AND TECHNICAL STAFF COMPETENT AND EFFICIENT

AND FULLY CAPABLE OF HANDLING MILL OPERATION AND MAINTENANCE.

5. TOTAL COST OF PROJECT IS ESTIMATED AT \$27.7 MILLION, WITH BANK EXPECTED TO MEET \$13.7 MILLION FOREX COST INCLUDING ADVISORY SERVICES. GOVT HAS ASSURED THAT BCAL CURRENCY REQUIREMENT OF ABOUT

\$14.0 MILLION EQUIVALENT, INCLUDING INTEREST DURING CONSTRUCTION, WILL BE MET PARTLY FROM P.N. SANDANG'S OWN RESOURCES AND PARTLY FROM GOVT LOAN.

6. PROCUREMENT OF GOODS AND SERVICES WILL BE UNDERTAKEN IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. SUPPLY CONTRACTS OF \$100,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING, ON SMALLER CONTRACTS, BIDS OR QUOTATIONS WILL BE RECEIVED FROM REASONABLE NUMBER OF SUPPLIERS. (BANK MISSION ASSURES THAT FACILITIES TO BE FINANCED FROM BANK LOAN NEED NOT NECESSARILY MATCH EXISTING EQUIPMENT AND COULD BE PROCURED FROM ANY SOURCE IN COMPLIANCE WITH BANK'S PROCUREMENT PROCEDURES.) CIVIL WORKS CONTRACTS INVOLVE ONLY LOCAL CURRENCY EXPENDITURE. BECAUSE P.N. SANDANG AND CSM STAFF HAVE LIMITED EXPERIENCE IN PROCUREMENT THROUGH INT'L TENDERING, SHORT-TERM (AT LEAST 9/9 MONTHS) ENGINEERING CONSULTANT WILL BE PROVIDED TO REVIEW DESIGNS AND SPECIFICATIONS AND TO ASSIST IN PREPARATION OF TENDER DOCUMENTS.

7. P.N. SANDANG IS STATE ENTERPRISE ESTABLISHED IN 1967 TO OPERATE AND MANAGE ALL GOVT-OWNED TEXTILE UNITS UNDER CONTROL OF MINISTRY OF INDUSTRY. (CSM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 13441 131016Z

IS ONE OF ELEVEN GOVT SPINNING AND WEAVING MILLS MANAGED AND OPERATED BY P.N. SANDANG.) OVERALL RESPONSIBILITY FOR PROJECT IMPLEMENTATION AND COORDINATION TO BE ENTRUSTED TO PROJECT OFFICE ESTABLISHED IN BANDUNG BY EXECUTING AGENCY. IN CONSULTATION WITH BANK, P.N. SANDANG WILL APPOINT FULL-TIME PROJECT MANAGER. WHILE MISSION FOUND P.N. SANDANG'S MANAGEMENT COMPETENT AND EXPERIENCED IN ITS TECHNICAL OPERATIONS, IT REQUIRES STRENGTHENING IN FINANCIAL MANAGEMENT AND INTERNAL AUDITING ARRANGEMENTS. HENCE, PROVISION BEING MADE UNDER LOAN FOR FINANCIAL AND MANAGEMENT ADVISORY SERVICES. ADVISORS WILL BE SELECTED IN ACCORDANCE WITH BANK'S GUIDELINES FOR TOTAL OF ABOUT 12 MAN-MONTHS (ONE OR TWO EXPERTS).

8. IN VIEW P.N. SANDANG'S INADEQUATE EXTERNAL AUDIT, BANK HAS RECEIVED ASSURANCES THAT ACCOUNTS WILL BE AUDITED ANNUALLY BY FIRM ACCEPTABLE TO BANK. AUDITORS WILL REPORT ON ADEQUACY OF INTERNAL FINANCIAL PROCEDURES AND RECOMMEND ANY REMEDIAL ACTION AND IMPROVEMENTS. OTHER ASSURANCES PRECLUDE P.N. SANDANG FROM (A) INCURRING ANY LONG-TERM DEBT IF TOTAL DEBT OUTSTANDING WOULD EXCEED 70:30 RATIO TO CAPITAL AND CAPITAL RESERVES; AND (B) UNDERTAKING INVESTMENT OR DISTRIBUTING PROFITS IF RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES WOULD BE LESS THAN 1.5 TO 1.0. IN ADDITION, EXECUTING AGENCY IS REQUIRED TO SUBMIT QUARTERLY PROGRESS REPORTS TO BANK WITHIN THIRTY DAYS AFTER END OF EACH PERIOD.

9. PROPOSED PROJECT IS CONSIDERED TO BE TECHNICALLY FEASIBLE AND FINANCIALLY AND ECONOMICALLY VIABLE. INTERNAL FINANCIAL AND ECONOMIC RATES OF RETURN ARE 19 PERCENT AND 21 PERCENT RESPECTIVELY. PROJECT WILL HELP ALLEVIATE YARN SHORTAGE AS WELL AS HELP MEET RAPID GROWING DOMESTIC DEMAND. ALTHOUGH IMPORTED RAW MATERIAL INPUT IS QUITE LARGE, NET FOREIGN EXCHANGE SAVINGS ARE ESTIMATED TO AVERAGE \$6.86 MILLION PER ANNUM BETWEEN 1975 AND 1988. AS RESULT PROVISION UNDER PROJECT FOR ADVISORY CONSULTANTS AND RECEIPT BY BANK OF VARIOUS ASSURANCES, AND WITH APPROPRIATE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 MANILA 13441 131016Z

MONITORING BY BANK STAFF, FINANCIAL MANAGEMENT OF EXECUTING AGENCY SHOULD BE STRENGTHENED CONSIDERABLY. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

10. REQUEST JAKARTA'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
SULLIVAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXTILE INDUSTRY, BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA13441
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740326-1028
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741148/aaaabocn.tel
Line Count: 210
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 29 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 JUL 2002 by kelleyw0>; APPROVED <17 MAR 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSAL ADB LOAN TO CIPADUNG SPINNING MILL PROJECT (INDONESIA)
TAGS: EAID, EFIN, ID, ADB-1
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005